

CITY OF BATTLE CREEK
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Battle Creek, Iowa.

The City's receipts totaled \$468,597 for the year ended June 30, 2005, and included \$119,340 in property tax; \$242,830 from charges for services; \$95,963 from operating grants, contributions and restricted interest; \$4,985 from unrestricted investment earnings; and \$5,479 from other general receipts.

Disbursements for the year totaled \$413,830 and included \$115,176 for public safety, \$42,885 for public works, and \$31,020 for general government. Also, disbursements for business type activities totaled \$169,705.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF BATTLE CREEK
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BASIC FINANCIAL STATEMENTS
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SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF BATTLE CREEK

OFFICIALS

Douglas Dausel	Mayor	January, 2006
Myrle Nielsen	Council Member	January, 2006
Joe Sohn	Council Member	January, 2006
Bonnie Spotts	Council Member	January, 2006
Ken Hanshaw	Council Member	January, 2008
Jeanette Holmes	Council Member	January, 2008
Diane Lansink	Clerk	Indefinite
Joan Grothe	Treasurer	Indefinite
Boerner & Goldsmith	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Battle Creek, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Battle Creek, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the City of Battle Creek, as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2005 on our consideration of City of Battle Creek's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 16 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Battle Creek, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Battle Creek's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungelman, Putzier & Co.

November 17, 2005

CITY OF BATTLE CREEK
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Operating				
		Grants,				
		Contributions,				
		and Restricted				
	Disbursements	Charges for	Interest	Governmental	Business	Total
		Service		Activities	Type	
					Activities	
Functions/Programs:						
Governmental Activities						
Public safety	\$ 115,176	\$ 25,031	\$ 25,083	\$ (65,062)	\$ -	\$ (65,062)
Public works	42,885	-	61,777	18,892	-	18,892
Culture and recreation	30,159	664	6,078	(23,417)	-	(23,417)
Community and economic development	6,924	-	-	(6,924)	-	(6,924)
General government	31,020	1,853	3,025	(26,142)	-	(26,142)
Debt service	17,961	-	-	(17,961)	-	(17,961)
Total governmental activities	244,125	27,548	95,963	(120,614)	-	(120,614)
Business type activities						
Water	53,865	68,659	-	-	14,794	14,794
Sewer	48,828	60,152	-	-	11,324	11,324
Garbage	55,104	58,593	-	-	3,489	3,489
Lagoon	11,908	27,878	-	-	15,970	15,970
Total business type activities	169,705	215,282	-	-	45,577	45,577
Total	\$ 413,830	\$ 242,830	\$ 95,963	(120,614)	45,577	(75,037)
General Receipts:						
Property tax levied for:						
General purposes				84,940	-	84,940
Employee benefits				13,999	-	13,999
Emergency				2,208	-	2,208
Debt service				18,193	-	18,193
Utility franchise tax				2,408	-	2,408
Unrestricted interest on investments				3,651	1,334	4,985
Bank franchise tax				1,305	-	1,305
Miscellaneous				1,766	-	1,766
Total general receipts and transfers				128,470	1,334	129,804
Change in cash basis net assets				7,856	46,911	54,767
Cash basis net assets beginning of year				253,917	151,056	404,973
Cash basis net assets end of year				\$ 261,773	\$ 197,967	\$ 459,740

(Continued)

CITY OF BATTLE CREEK
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A
(Continued)

	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash Basis Net Assets						
Restricted:						
Streets				\$ 28,531	\$ -	\$ 28,531
Debt service				15,286	40,563	55,849
Employee benefits				43,231	-	43,231
Other purposes				8,872	-	8,872
Unrestricted				<u>165,853</u>	<u>157,404</u>	<u>323,257</u>
Total cash basis net assets				<u>\$ 261,773</u>	<u>\$ 197,967</u>	<u>\$ 459,740</u>

See notes to financial statements.

CITY OF BATTLE CREEK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

	<u>Special Revenue</u>			Other Non-major Governmental	
	<u>General</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Funds</u>	<u>Total</u>
Receipts:					
Property tax	\$ 81,050	\$ -	\$ 13,355	\$ 19,462	\$ 113,867
Other city tax	3,890	-	644	939	5,473
License and permits	1,853	-	-	-	1,853
Use of money and property	6,262	-	415	-	6,677
Intergovernmental	28,979	61,777	-	-	90,756
Charges for service	24,174	-	-	-	24,174
Miscellaneous	9,181	-	-	-	9,181
Total receipts	<u>155,389</u>	<u>61,777</u>	<u>14,414</u>	<u>20,401</u>	<u>251,981</u>
Disbursements:					
Operating:					
Public safety	111,572	-	3,604	-	115,176
Public works	-	40,045	2,840	-	42,885
Culture and recreation	30,100	-	59	-	30,159
Community and economic development	6,924	-	-	-	6,924
General government	27,541	-	3,479	-	31,020
Debt service	-	-	-	17,961	17,961
Total disbursements	<u>176,137</u>	<u>40,045</u>	<u>9,982</u>	<u>17,961</u>	<u>244,125</u>
Net change in cash balances	(20,748)	21,732	4,432	2,440	7,856
Cash balances beginning of year	<u>186,601</u>	<u>6,799</u>	<u>38,799</u>	<u>21,718</u>	<u>253,917</u>
Cash balances end of year	<u>\$ 165,853</u>	<u>\$ 28,531</u>	<u>\$ 43,231</u>	<u>\$ 24,158</u>	<u>\$ 261,773</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ -	\$ -	\$ 15,286	\$ 15,286
Unreserved:					
General fund	165,853	-	-	-	165,853
Special revenue funds	-	28,531	43,231	8,872	80,634
Total cash basis fund balances	<u>\$ 165,853</u>	<u>\$ 28,531</u>	<u>\$ 43,231</u>	<u>\$ 24,158</u>	<u>\$ 261,773</u>

See notes to financial statements.

CITY OF BATTLE CREEK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Lagoon</u>	<u>Total</u>
Operating Receipts:					
Charges for service	\$ 66,754	\$ 60,152	\$ 58,593	\$ 27,878	\$ 213,377
Miscellaneous	<u>1,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,905</u>
Total operating receipts	68,659	60,152	58,593	27,878	215,282
Operating Disbursements:					
Business type activities	<u>53,865</u>	<u>48,828</u>	<u>55,104</u>	<u>-</u>	<u>157,797</u>
Excess of operating receipts over operating disbursements	<u>14,794</u>	<u>11,324</u>	<u>3,489</u>	<u>27,878</u>	<u>57,485</u>
Non-operating receipts (disbursements):					
Interest on investments	1,334	-	-	-	1,334
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,908)</u>	<u>(11,908)</u>
Total non-operating receipts (disbursements)	<u>1,334</u>	<u>-</u>	<u>-</u>	<u>(11,908)</u>	<u>(10,574)</u>
Net change in cash balances	16,128	11,324	3,489	15,970	46,911
Cash balances beginning of year	<u>97,048</u>	<u>30,808</u>	<u>(1,393)</u>	<u>24,593</u>	<u>151,056</u>
Cash balances end of year	<u>\$ 113,176</u>	<u>\$ 42,132</u>	<u>\$ 2,096</u>	<u>\$ 40,563</u>	<u>\$ 197,967</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ 113,176</u>	<u>\$ 42,132</u>	<u>\$ 2,096</u>	<u>\$ 40,563</u>	<u>\$ 197,967</u>
Total cash basis fund balances	<u>\$ 113,176</u>	<u>\$ 42,132</u>	<u>\$ 2,096</u>	<u>\$ 40,563</u>	<u>\$ 197,967</u>

See notes to financial statements.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Battle Creek is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Battle Creek has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to: Ida County Assessor's Conference Board, Ida County E911 Board, and Ida County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for taxes received to be used solely for employee payroll taxes and health insurance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's waste management system.

The Lagoon Fund accounts for the operation and maintenance of the City's waste water treatment system.

C. Measurement Focus and Basis of Accounting

The City of Battle Creek maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development function.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$15,350	\$2,518	\$ 7,000	\$ 4,320	\$ 22,350	\$ 6,838
2007	16,200	1,735	7,000	4,110	23,200	5,845
2008	17,000	901	7,000	3,900	24,000	4,801
2009	-	-	7,000	3,690	7,000	3,690
2010	-	-	7,000	3,480	7,000	3,480
2011-2015	-	-	41,000	13,950	41,000	13,950
2016-2020	-	-	47,000	7,470	47,000	7,470
2021-2022	-	-	21,000	960	21,000	960
Total	<u>\$48,550</u>	<u>\$5,154</u>	<u>\$144,000</u>	<u>\$41,880</u>	<u>\$192,550</u>	<u>\$47,034</u>

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. BONDS AND NOTES PAYABLE - (Continued)

The resolutions providing for the issuance of revenue bonds include the following provisions:

- a. The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$5,455 equal to the required contributions for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$1,911</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

6. SERVICE AGREEMENTS

The City has an agreement with Ida County Sanitation for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$43,859 for the year ended June 30, 2005.

7. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

7. RISK MANAGEMENT - (Continued)

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$18,852.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 113,867	\$ -	\$ 113,867	\$ 113,422	\$ 113,422	\$ 445
Other city tax	5,473	-	5,473	5,452	5,452	21
Licenses and permits	1,853	-	1,853	1,690	1,690	163
Use of money and property	6,677	1,334	8,011	7,000	7,000	1,011
Intergovernmental	90,756	-	90,756	166,900	166,900	(76,144)
Charges for service	24,174	213,377	237,551	266,685	266,685	(29,134)
Miscellaneous	9,181	1,905	11,086	1,500	1,500	9,586
Total receipts	<u>251,981</u>	<u>216,616</u>	<u>468,597</u>	<u>562,649</u>	<u>562,649</u>	<u>(94,052)</u>
Disbursements:						
Public safety	115,176	-	115,176	161,967	161,967	46,791
Public works	42,885	-	42,885	67,240	67,240	24,355
Culture and recreation	30,159	-	30,159	115,274	115,274	85,115
Community and economic development	6,924	-	6,924	500	6,900	(24)
General government	31,020	-	31,020	31,375	31,375	355
Debt service	17,961	-	17,961	18,000	18,000	39
Business type activities	-	169,705	169,705	195,658	195,658	25,953
Total disbursements	<u>244,125</u>	<u>169,705</u>	<u>413,830</u>	<u>590,014</u>	<u>596,414</u>	<u>182,584</u>
Excess (deficiency) of receipts over disbursements	7,856	46,911	54,767	(27,365)	(33,765)	88,532
Balances, beginning of year	<u>253,917</u>	<u>151,056</u>	<u>404,973</u>	<u>244,870</u>	<u>244,870</u>	<u>160,103</u>
Balances, end of year	<u>\$ 261,773</u>	<u>\$ 197,967</u>	<u>\$ 459,740</u>	<u>\$ 217,505</u>	<u>\$ 211,105</u>	<u>\$ 248,635</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2005 a budget amendment increased budgeted disbursements by \$6,400. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	Special Revenue Emergency	Debt Service	Total
Receipts:			
Property tax	\$ 2,106	\$ 17,356	\$ 19,462
Other city tax	<u>102</u>	<u>837</u>	<u>939</u>
	2,208	18,193	20,401
Disbursements:			
Operating:			
Debt service	<u>-</u>	<u>17,961</u>	<u>17,961</u>
Net change in cash balances	2,208	232	2,440
Cash balances beginning of year	<u>6,664</u>	<u>15,054</u>	<u>21,718</u>
Cash balances end of year	<u>\$ 8,872</u>	<u>\$ 15,286</u>	<u>\$ 24,158</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	\$ 15,286	\$ 15,286
Unreserved	<u>8,872</u>	<u>-</u>	<u>8,872</u>
	<u>\$ 8,872</u>	<u>\$ 15,286</u>	<u>\$ 24,158</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2005

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Street improvement	July 8, 1997	5.05%-5.30%	<u>\$ 138,000</u>	<u>\$ 63,250</u>	<u>\$ -</u>	<u>\$ 14,700</u>	<u>\$ 48,550</u>	<u>\$ 3,261</u>	<u>\$ -</u>
Revenue notes:									
Sewer	October 24, 2002	3.00%	<u>\$ 170,000</u>	<u>\$ 151,000</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 144,000</u>	<u>\$ 4,530</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
BOND MATURITIES
YEAR ENDED JUNE 30, 2005

Schedule 3

<u>General Obligations Bonds</u>			<u>Revenue Notes</u>		
Street Improvement			Sewer Improvement		
Issued July 8, 1997			Issued October 24, 2002		
Year Ending June 30,	Interest Rates	Amount	Year Ending June 30,	Interest Rates	Amount
2006	5.10%	\$ 15,350	2006	3.00%	\$ 7,000
2007	5.15	16,200	2007	3.00	7,000
2008	5.30	17,000	2008	3.00	7,000
			2009	3.00	7,000
			2010	3.00	7,000
			2011	3.00	8,000
			2012	3.00	8,000
			2013	3.00	8,000
			2014	3.00	8,000
			2015	3.00	9,000
			2016	3.00	9,000
			2017	3.00	9,000
			2018	3.00	9,000
			2019	3.00	10,000
			2020	3.00	10,000
			2021	3.00	10,000
			2022	3.00	11,000
		<u>\$ 48,550</u>			
					<u>\$ 144,000</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Schedule 4

2005

Receipts:

Property tax	\$ 113,867
Other city tax	5,473
Licenses and permits	1,853
Use of money and property	6,677
Charges for service	24,174
Intergovernmental	90,756
Miscellaneous	9,181
Total	<u>\$ 251,981</u>

Disbursements:

Operating:

Public safety	\$ 115,176
Public works	42,885
Culture and recreation	30,159
Community and economic development	6,924
General government	31,020
Debt service	17,961
Total	<u>\$ 244,125</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Battle Creek, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Battle Creek, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 17, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Battle Creek's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Battle Creek's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we believe items I-(A,C,D, and E)-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Battle Creek's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Battle Creek, and other parties to whom City of Battle Creek may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Battle Creek during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzier & Co.

November 17, 2005

CITY OF BATTLE CREEK
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider alternatives.

Conclusion - Response accepted.

I-B-05 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Ensuring that only software licensed to the City is installed on computers.
- Personal use of computer equipment and software.

Also, the City does not have a disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response - We will develop written policies addressing the above items in order to improve the City's control over computer based systems.

Conclusion - Response accepted.

CITY OF BATTLE CREEK

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements: (Continued):

- I-C-05 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Reconciliation of the utility billings, collections, and delinquencies will begin immediately and will be reviewed periodically by the Mayor.

Conclusion - Response accepted.

- I-D-05 Approval of Time Sheets - We noted time sheets had no indication that they had been reviewed and approved prior to the preparation of the payroll.

Recommendation - Time sheets should be maintained for all City employees. Time sheets should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

Response - The Mayor will begin to review and initial all timesheets.

Conclusion - Response accepted.

- I-E-05 Ambulance, Fire Department, and Library Funds - The Ambulance, Fire Department, and Library currently maintain some accounts and records, including payroll, which are not controlled by the City Clerk. These are not separate non-profit corporations, but are departments of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds and records should be maintained by the City Clerk and any disbursements should be budgeted.

Response - Ambulance - This way is working now. If we can stay this way we would like to leave it this way if at all possible.

Fire Department - The City can look over all accounts of the Fire Department at any time. This account keeps fundraising funds separate from tax money.

Library - The Battle Creek Library Board has unanimously decided to continue to maintain accounts, records, including payroll, through our library board. We feel our records do not need to be controlled by the City Clerk. We have kept our own records for numerous years with no problems. The library board submits accurate and detailed accounts of all transactions to the City Clerk. We do not feel the need to change how we currently maintain the library accounts.

CITY OF BATTLE CREEK

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements: (Continued):

I-E-05 Ambulance, Fire Department, and Library Funds - (Continued)

Conclusion - Response acknowledged, however, provisions contained in the Code of Iowa Chapters 384.3, 384.16, and 384.70 clearly establish the City's responsibility for budgeting, accounting and reporting all city funds. It is the recommendation of the Auditor of the State, that the city clerk perform the accounting and reporting requirements. It is generally more efficient and the city clerk is bonded and insured in the event of financial impropriety. In addition, the city typically has established the internal controls to ensure proper accountability and compliance with local, state and federal requirements.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the City, however, it does not specify a limit.

Recommendation - The City should specify a limit in its resolution of depository.

Response - A limit will be set in our resolution of depository.

Conclusion - Response accepted.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended prior to disbursements being allowed to exceed the budget.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dean Lansink, spouse of clerk, owner of Lansink Repair and Hardware	Repairs, maintenance, and tree removal	\$2,250

CITY OF BATTLE CREEK

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-E-05 Business Transactions - (Continued)

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions do not appear to be a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the published minutes did not include total disbursements from each fund, a list of all claims allowed, and a summary of all receipts.

Recommendation - The City should include all necessary information in the published minutes.

Response - We will begin to publish total disbursements from each fund, a list of all claims allowed, and a summary of all receipts in addition to the meeting minutes.

Conclusion - Response accepted.

II-H-05 Deposits and Investments - The City does not have an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt an investment policy which authorizes the types of investments the City may hold.

Response - An investment policy will be developed.

Conclusion - Response accepted.

II-I-05 Excess Balances - The following funds have balances at June 30, 2005 which are in excess of one year's expenditures:

Special Revenue - Employee Benefits
- Emergency

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Balances will be applied to future expenditures.

Conclusion - Response accepted.

CITY OF BATTLE CREEK
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-J-05 Form 1099 - The Internal Revenue Service requires that Form 1099 be prepared when disbursements for services to a non-corporate entity exceed \$600 in a calendar year. The City is currently not issuing any 1099's.

Recommendation - The City should monitor yearly disbursements by vendor and issue a Form 1099 if required.

Response - 1099's were issued to required vendors beginning in January 2006 and will continue to be.

Conclusion - Response accepted.

- II-K-05 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We are currently receiving the image of both the front and back of each cancelled check after requesting this from our bank.

Conclusion - Response accepted.

- II-L-05 City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a city shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City should compile the City ordinances as required.

Response - Codification has been budgeted and will take place during FY06/07.

Conclusion - Response accepted.